



Office of Audit

**Treasury
Inspector
General for Tax
Administration**



Recovery Act

**OVERALL THE MAKING WORK PAY CREDIT
WAS IMPLEMENTED AS INTENDED BY THE
CONGRESS, BUT RESULTED IN MANY
TAXPAYERS OWING TAXES WITH THEIR
RETURNS**

Issued on November 1, 2010

Highlights

Highlights of Report Number: 2011-41-002 to the Internal Revenue Service Commissioners for the Small Business/Self-Employed Division and the Wage and Investment Division.

IMPACT ON TAXPAYERS

The Making Work Pay Credit is being advanced to taxpayers through their wages by a decrease in Federal income tax withholding. This created the vulnerability that some taxpayers had or will have their taxes underwithheld at the end of Tax Years 2009 or 2010. If taxpayers were advanced more of the Making Work Pay Credit than they were entitled to, they may have ultimately owed taxes when they filed their Tax Year 2009 tax returns and may owe taxes when they file their Tax Year 2010 tax returns. These taxpayers may have been or could be assessed the Estimated Tax Penalty.

WHY TIGTA DID THE AUDIT

The Making Work Pay Credit, a provision of the American Recovery and Reinvestment Act of 2009, applies to most taxpayers with earned income. The Credit is effective for both Tax Years 2009 and 2010. The Making Work Pay Credit was implemented using new income tax withholding tables issued by the Internal Revenue Service (IRS). The tables had some inherent limitations which could negatively affect a significant number of taxpayers. The overall objectives of this review were to assess IRS efforts to implement the Making Work Pay Credit, evaluate its impact on taxpayers, and determine whether taxpayers who were negatively affected were aware of how to avoid owing taxes and penalties.

WHAT TIGTA FOUND

The IRS initiated significant outreach to inform taxpayers about the Making Work Pay Credit and its potential effects. Despite these actions, TIGTA estimates that

approximately 13.4 million taxpayers were or will be negatively affected by the Making Work Pay Credit in Tax Years 2009 and 2010. The changes to the withholding tables did not take the following situations into consideration:

- Dependents who receive wages.
- Single taxpayers with more than one job.
- Joint filers when one or both spouses have more than one job or both spouses work.
- Individuals who file a return with an individual taxpayer identification number.
- Taxpayers who receive pension payments.
- Social Security recipients who receive wages.

A survey of the taxpayers who appeared to have been negatively affected by the reduced withholding associated with the Credit indicated that most were not aware of the Credit or its effect on their taxes. Furthermore, TIGTA estimates that approximately 108,000 taxpayers may have been assessed the Estimated Tax Penalty as a result of the Making Work Pay Credit and that an additional 1.02 million taxpayers may have had their Estimated Tax Penalty amount increased.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, should: 1) in the case of future credits that are implemented by changes in the withholding tables, consider including simplified withholding adjustment instructions on the IRS Web site for specific scenarios that could result in underwithholding and 2) identify those taxpayers that owed any Estimated Tax Penalty as a result of the Making Work Pay Credit and notify them of their right to have the portion of the Penalty related to the Credit abated.

IRS management agreed with the first recommendation and partially agreed with the second. They plan to continue outreach efforts, but declined to contact taxpayers who owed any Penalty based on the Making Work Pay Credit. TIGTA is concerned that the IRS's corrective actions are not adequate.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2011reports/201141002fr.pdf>

Email Address: inquiries@tigta.treas.gov

Web Site: <http://www.tigta.gov>

Phone Number: 202-622-6500